

**Report to City Council - 1/19/99**

CITY OF GLENDALE CALIFORNIA  
REPORT TO CITY COUNCIL

January 19, 1999

AGENDA ITEM

Report on Glendale 2010 - Phase I Long Range Financial Projections

**COUNCIL ACTION**

Public Hearing  Ordinance  Consent Calendar  Action Item  Report Only

Approved for \_\_\_\_\_ calendar

**ADMINISTRATIVE ACTION**

**Signature**

**Submitted**

Robert McFall, Assistant City Manager \_\_\_\_\_

**Prepared**

Steven Adams, Deputy City Manager

**Approved**

James E. Starbird, City Manager \_\_\_\_\_

**Reviewed**

Scott Howard, City Attorney

Robert Franz, Director of Finance & Administrative Services

**RECOMMENDATION**

It is respectfully recommended the City Council review the attached projections, provide any comments and suggested modifications, and then direct staff to continue with the long range financial planning process as outlined in the report. Recommendations to proceed include the following: (1) Accept the results of the Phase I Long Range Financial Planning Process; (2) Continue to refine the assumptions based on input from the review panel; (3) Begin the Phase II community participation process; and (4) contract with professional services to assist in designing the public participation

activities. A motion accepting the report and directing staff to proceed is attached for your consideration. Council approval is respectfully recommended.

## **SUMMARY**

### **PHASE I**

#### **Status**

The results of Phase I of the Long Range Financial Planning Process have been largely completed and are attached for City Council review. The primary goal of Phase I was to identify long-range financial projections for existing service level base economic assumptions and the costs of addressing structural budget issues in order to begin to incorporate this information into recommendations for the FY 1999-00 budget. In other words, the purpose was to forecast the 10-year financial impact of just doing what we are doing now before we proceed to look at adjusting service levels.

As a result, it is important to note the value of this tool as it already exists. For example, the recent quarterly budget report presented to the City Council projects substantial cost savings for the next fiscal year due to savings from PERS rates. However, even though the existing model forecasts are still under refinement, they make it clear that there are important future operational cost issues that must be addressed before the City can begin to program major portions of these savings. This was utilized extensively in developing staff's recommendations for the FY 1999-00 budget process. Therefore, staff believes the first phase in this process has been successful and already of practical use.

The key steps that have been completed include:

- **Development of the computer model**

The full computer model has been completed and all base data has been entered. It is now operational to identify the funding impacts of any financial decisions and scenarios identified as part of the long range financial planning process.

- **Development of the base economic assumptions/forecasts**

The base economic assumptions and forecasts have been completed and presented to the City Council at the November 17th meeting. The figures have been further refined and changes are outlined below.

- **Economic Forecast Panel review**

A panel of individuals with expertise in different areas of financial planning and economic forecasting was formed and convened to review all the assumptions established. A number of suggestions were identified to further refine the existing figures, which staff estimates will be completed within the next two-month period. The panel will then reconvene in March to review the proposed changes. The panel included: Dr. Lisa Grobar, Associate Professor of Economics and Director of the Economic Forecast Project with California State University, Long Beach, as well as a local resident; Dr.

Robert Kleinhenz, Assistant Director of the Institute for Economic and Environmental Studies with California State University, Fullerton; Loyd deLlamas, the City's sales and property tax consultant with Hinderliter deLlamas & Associates; and Dennis Brumm, CPA and former Chief Financial Officer with a number of private companies, as well as local resident and homeowner association president.

#### • **Community orientation**

A slide show was prepared and a number of community presentations have been made on the process. A special meeting was held with leaders from community organizations in the city to discuss the process and request support in promoting community involvement. The meeting was well attended and provided valuable input. A four page insert was completed and distributed throughout the community and to every household in City Views. A web page has been established with comprehensive information on the planning process, as well as the capability for the public to electronically provide ideas and feedback. A public service announcement has been developed, which will air on a number of cable channels. Lastly, a series of community meetings has been scheduled in late January to discuss the process and begin to seek input.

#### • **Phase I Long Range Financial Projections**

The next step is to identify specific projected and/or proposed changes to the base figures. Changes include the impact on revenues and expenditures from items such as economic development projects, deregulation, addressing structural budget issues, new revenue sources, etc. Changes are identified separately so the impact of each individual change can be seen. No recommended service level changes or budget needs other than structural budget issues are included at this time. All service level issues are proposed to be addressed in Phase II of the process.

Preliminary projections have been completed and the results of the model runs are attached. Staff has developed four scenarios representing current budget authority and policies and the resulting changes to the base budget. These scenarios include the impact of employee contracts, PERS rate reductions, continued reduction in the CIP transfer to the General Fund, and CIP maintenance costs.

The primary unresolved item at this time is the future financial impact of electric deregulation on the General Fund. Projections have not yet been finalized and, therefore, have not been included. However, it is likely to have a significant impact. Reductions are expected to occur to revenue from the Utility User Tax, Electric Fund transfer, and abatements from administrative support departments due to decreasing rates, potential loss of customers and the need to reduce costs to become more competitive. It is estimated that the recommended projections will be completed within 2-3 months.

There are also two issues identified as structural budget issues that are recommended to be addressed in Phase II rather than Phase I, which include the deficiency in funding of the Vehicle Equipment Replacement Fund and the proposal to establish a Technology Equipment Replacement Fund. It is staff's recommendation to delay addressing these issues because the level at which to fund these items is very much a policy decision.

Therefore, it becomes a matter of prioritization that should be evaluated along with the many service level issues that will be identified.

### **Modifications to Prior Revenue Assumptions**

The approach utilized in this process continues to be one of applying the most accurate information known and available at any given time. Therefore, the model is intended to be updated on an ongoing basis as new information becomes available and as estimates are refined. As a result, a number of changes have been applied to the prior assumptions. For example, now that the quarterly financial report has been prepared, staff has developed more specific projections for FY 1999-00 rather than simply applying the overall 10-year projected averages. Modifications to the expenditure assumptions in the last report to City Council are as follows:

#### **• Sales Tax**

The sales tax projection rate was modified from 5.10% to 4%. This was the result of further refinement following review by the Director of Finance & Administrative Services.

#### **• Property Tax**

Property tax projection rates were changed from 4.70% to 3.75%. After review of economic forecasts and past trends, the projected rate was recalculated and refined. While property values are expected to continue to increase, there is not substantial growth in housing units projected in Glendale and increases in property tax are based only on increased assessment.

#### **• Water Fund Transfer**

Revenue estimates were revised based upon rate projections prepared by Water and Power. The decrease is a reflection of lower rates projected due to increased local water supply.

#### **• Revised FY 1998-99 Revenue**

Revenue projections for FY 1998-99 under the revised column were modified to include the current revised estimates detailed in the quarterly report issued by the Finance & Administrative Services Division.

### **Modifications to Prior Expenditure Assumptions**

Modifications to the expenditure assumptions in the last report to City Council are as follows:

#### **• Salaries**

The projected increase for salary costs was modified to 2% for FY 1999-00 and remains 3.1% each year thereafter. The 3.1% is a 10-year average based upon CPI forecasts.

However, forecasts also predict an increase of only about 2% for this year. Therefore, the first year was adjusted.

- **M & O**

The projected increase for M & O costs was also modified to 2% for FY 1999-00 and remains 2.5% thereafter. Once again, projections for the upcoming year are slightly lower than that for the 10-year average.

- **Police and Fire Overtime**

Funding proposed to be allocated for Fire and Police overtime was included in the revised FY 1998-99 column.

- **Capital Outlay**

Funding proposed to be allocated for Capital Outlay was included in the revised FY 1998-99 column.

### **Projected Changes to Revenues & Expenditures**

Specific changes projected or proposed that will impact future revenues and/or expenditures and are outside the base projections have been identified. However, they have been included in individual scenarios in order to see the incremental impact of each change. Each scenario includes the costs for that particular item, as well as the impacts from each of the prior scenarios. Therefore, the costs progressively increase from Scenario I to Scenario IV. The summary results of each are attached. The scenarios and changes are as follows:

- **Scenario I - Base (Attachment A)**

The base is limited primarily to the economic assumptions. Only two changes have been included because they have already been approved and are under way. First, increased net sales tax revenue from the Fashion Center project is estimated to be \$100,000 in FY 1999-00 and \$300,000 beginning in FY 2000-01. Second, the only expenditure change identified is funding for the Police School Resource Officer position recently approved by the City Council, the majority of which is being funded by the Glendale Unified School District. An increase of \$19,000 is included in FY 1999-00 for the City's portion of these costs. As can be seen in the Surplus or (Deficit) figures, a surplus is projected in the first two years under Scenario I and a deficit becomes progressively larger thereafter. This appears to identify a potential overall structural problem with the City's revenue base.

- **Scenario II - PERS Savings (Attachment B)**

It is projected that the City is going to experience a significant decrease in PERS rates beginning next fiscal year, which is incorporated in Scenario II. The current estimate is that rates for Safety will decrease by over 9% and miscellaneous employees by over 8%, for a total savings of approximately \$4.8 million per year. This has a dramatic impact on funding projections, resulting in a substantial surplus over the 10-year period. The

amount of annual surplus decreases over time, but overall funds available is shown to increase from \$40,195,723 at the end of FY 1998-99 to \$79,943,754 by the end of FY 2008-09.

• **Scenario III - CIP Transfer (Attachment C)**

Consistent with prior direction from the City Council and the approved 5-year CIP, the transfer from the CIP Fund to the General Fund is decreased \$500,000 each year until eliminated in FY 2006-07 under this scenario. The result is a forecasted deficit beginning in FY 2005-06. However, the overall City's reserves still result in an overall increase over the 10-year period.

• **Scenario IV - M & O Costs Associated with Capital Projects (Attachment D)**

The following projects and costs were incorporated in the appropriate years and escalated for inflation each year thereafter:

Edison Pacific - \$642,000  
Adult Recreation Center - \$260,000  
Deukmejian Wilderness Park - \$210,000  
Park Acquisition & Development - \$30,000  
Riverwalk - \$36,000  
Brand Library Renovation - \$50,000  
Police Facility - \$340,000  
Computer Aided Dispatch - \$110,000  
Property Room Automation - \$7,000  
Fire CIP Projects - \$10,000  
Public Works Street and Traffic Projects - \$194,000

The forecasted annual balance is still positive for the first two fiscal years, but reaches a substantial deficit in FY 2002-03 when some of the major project cost impacts begin to take place.

**PHASE II**

It is staff's recommendation to now move to Phase II of this planning process. As stated earlier, the deregulation impact projections will continue to be developed and the base assumptions will continue to be refined. Along with the Equipment Replacement Fund and Technology Equipment Replacement Fund, they will become priority issues to address in Phase II. However, it is staff's recommendation to not delay the commencement of Phase II activities for these issues. Rather, incorporating these issues into the discussion of service levels will be valuable in the overall development of priorities and strategies.

It is proposed that Phase II begin with the initial series of community meetings scheduled this month. In addition to orienting participants to the process and the City's budget issues, they will be asked to engage in an exercise to obtain their opinions on a number of City service levels. This information will then be utilized in a comprehensive assessment that each division will undertake to evaluate their service levels, overall efficiency and effectiveness. A statistically valid City-wide telephone survey will also be

conducted to assess the community's opinions. The divisions' assessment will result in the identification of service level alternatives, as well as proposed strategies for providing them. Based on priorities identified by the City Council, staff and the community, a number of scenarios will then be developed, along with strategies on how to fund and provide them, which will again be reviewed with the community to obtain feedback and consensus.

To assist staff in designing the public participation activities in Phase II, it is recommended that professional services be obtained. In-house staff will conduct the entire program. Assistance will be limited to professional expertise in the design of the exercises to ensure that information obtained is meaningful to the process and accomplishes the City's objectives. This recommendation is consistent with the budget proposed for the overall program, which included \$25,000 for the Phase II community participation effort.

### **FISCAL IMPACT**

The only recommendation at this time with a direct fiscal impact is obtaining public participation professional services, which is estimated to result in a cost not to exceed \$10,000. These expenses are currently being funded from savings from the unfilled City Auditor position.

### **BACKGROUND**

At the September 15th meeting, the City Council approved the proposed process for development of a long-range financial strategic plan. The primary reasons for initiating the process were to:

- Enable the identification of long-term impacts of decisions.
- Allow for long-term strategies to address service and funding issues.
- Link the City's long-range plans to the budget process and eliminate incremental budgeting.
- Enable community participation.
- Facilitate strategic programming of resources to meet long-range goals.

The process was proposed in two phases. Phase I was to develop a preliminary long-range plan, addressing funding for existing service levels, structural budget issues, operational costs associated with approved projects, and serious needs over a 10-year period. The purpose of Phase II will be to develop a comprehensive plan, which includes a review of what services the City provides, how they are provided, what should be done in the future and how to do it, as well as implementation of an annual process of updating the plan and linking it to the budget process.

The primary tool in preparing the plan is the use of 10-year projections of future revenues and expenditures. Development of a computer model was created to assist in

preparing and modifying the projections. At the November 17th meeting, the initial base economic projections and assumptions were presented to the City Council. The base projections are defined as projections of trends for current revenues and expenditures over the next 10-year period based upon historical data, projected economic trends, population growth, and other ongoing factors. The next step, which has now been prepared, is to identify specific projected and/or proposed changes to the base figures. Changes include the impact on revenues and expenditures from items such as economic development projects, deregulation, addressing structural budget issues, new revenue sources, etc. These changes, along with some modifications to the original assumptions, have now been included in order to provide the first full model run.

A commitment was made in the proposed process to involve the City Council at each step. As a result, presentations are scheduled at each key point to comment and provide direction into development of the projections and recommendations. Opportunity to review and modify the projections will continue throughout the process. Therefore, the purpose of this presentation is not to approve final projections, but rather to receive input and direction before proceeding to the next step.